



COUNCIL MINUTES

June 5, 2008

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on June 5, 2008 at 7:30 a.m.

COUNCIL PRESENT

Mayor Scott Smith
Alex Finter
Dina Higgins
Dennis Kavanaugh
Dave Richins
Scott Somers

COUNCIL ABSENT

Kyle Jones

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Linda Crocker

(Mayor Smith excused Vice Mayor Jones from the entire meeting.)

1. Hear a presentation, discuss and provide direction on the 2008 bond program, including Street and Public Safety projects and associated funding.

Mayor Smith stated that this bond proposal was presented to the previous Council and subsequently acted upon in November of last year. He commented that in light of the recent downturn in the economy, it was appropriate for the new Council to revisit this matter.

Deputy City Manager Bryan Raines displayed a PowerPoint presentation (A copy is available for review in the City Clerk's Office) and offered an extensive overview of this item. He reported that the November 4, 2008 Bond Election, which was called by the previous Council, relates to two General Obligation (G.O.) Bond questions. Mr. Raines explained that the proposed bond funded projects consist of 16 Public Safety capital improvement projects (\$178.2 million) and 46 Street projects (\$230.6 million), for a total funding requirement of \$408.8 million.

Mr. Raines briefly highlighted the Public Safety and Street capital improvement projects. (See Attachments 1 and 2.) He stated that regarding the Street projects, it is important to note that the 0.3% sales tax approved by the voters several years ago is utilized primarily for street maintenance, with a limited amount allotted for capital.

Budget Director Chuck Odom addressed the Council and reported that the "program value" (i.e., full cost of all improvements) of the Street projects is \$345.5 million. He explained that factored into that amount is \$92.3 million in reimbursements from Prop. 400 and Federal Grant funds; \$22.7 million in 0.3% "street sales tax" revenues and Highway User Revenue Funds (HURF); and \$230.6 million that is required in G.O. bonds. (Note: Proposition 400, which was approved

by the voters in 2004, was designed to provide an estimated \$9 billion for Regional Transportation Plan (RTP) projects, of which Mesa's share is \$92.3 million.)

Mr. Odom indicated that many of Mesa's RTP projects were programmed in the last five years of the 20-year timetable and said that by accelerating 11 RTP projects, Mesa has "maximized the match" and saved \$21.2 million. Mr. Odom provided, by way of illustration, an example of an advanced RTP project (Hawes Road - Santan Freeway to Ray Road) and the estimated savings to the City. (See Attachment 3.)

Discussion ensued relative to the fact that Mesa's Transportation Department has initiated efforts to advance to 2012 the start of construction of the 202/802 interchange and the 802 Freeway between the 202 and Ellsworth Road; that because it is a State project, its advancement is not a bond eligible expense and would necessitate staff to reprogram available local street sales tax and HURF revenues; that the Arizona Department of Transportation (ADOT) has projected that the opening of the freeway between Ellsworth and Meridian would occur in 2020; and that if Mesa were able to accelerate the first phase of this project to Ellsworth Road, the timeline for the second phase could potentially be advanced by four years so the freeway to Meridian Road would open by 2016.

In response to a question by Mayor Smith, Fire Chief Harry Beck explained that if Mesa voters did not approve the bonds for the construction of new fire stations, it would be necessary for staff to continue to operate in their current mode. He noted, however, that it would also require staff to review the Department's deployment model in order to address increased calls for service and response times.

Mr. Raines commented that the payment for the proposed projects would occur through five annual G. O. bond sales. (See Attachment 4.) He explained that the ballot language currently reflects that a secondary property tax would be levied to repay the debt incurred by the G.O. bond sales commencing in FY 2009/10. Mr. Raines stated that a secondary property tax could be levied up to the amount of the G.O. bond debt that the City has incurred in order to retire such debt on an annual basis.

Further discussion ensued relative to the fact that Mesa's existing G.O. bond debt, which totals \$256.3 million, would be retired in FY 2027/2028; that the amount would increase marginally by the \$50 million bond sale that occurred in May 2008; that under current practices, General Fund resources are used to retire such debt; that most communities impose a secondary property tax to retire similar debt; that an estimated \$100 million of such debt would be retired between FY 2009/10 and FY 2013/14; that in FY 2017/18, there will be an approximate \$30 million "spike" in the City's bond debt service (resulting from a debt service payment incurred years ago) that the City is unable to refinance until the year of the debt; that in anticipation of higher debt service payments in the future, staff has established significant reserves in the City's fund balance; and a comparison of Mesa's G.O. bond debt per resident as compared to similar debt in other communities.

Mr. Raines advised that per A.R.S. Section 35-454, a publicity pamphlet for a bond election must contain, among other things, the projected assessed valuations for properties located in the community. He noted that the estimates are then used to formulate property tax rates. Mr. Raines explained that if the City were to implement a secondary property tax today, with an

existing G.O. bond debt of \$256.3 million, the allowable tax rate would average \$0.1349 per thousand dollars of assessed valuation per year. (FY 2009/10 through FY 2032/33.)

Mr. Raines reported that if the proposed \$408.8 million bond package were approved by Mesa voters, the average estimated secondary tax rate for the new G.O. debt service would be \$0.2837 per thousand dollars assessed valuation. (FY 2009/10 through FY 2032/33.) He also provided a comparative analysis of various secondary property tax rates. (See Attachment 5.)

Additional discussion ensued relative to the fact that many of the Public Safety bond projects require funding for operations and maintenance (O&M) commencing in FY 2009/10; that the City's current forecasting models do not include funding to expand the necessary staffing levels; that the operational expenses are estimated at \$10.5 million in FY 2012/13 and would increase approximately 3% annually; that in order to address this issue, per the discretion of the Council, the City could levy a secondary property tax on a portion of the existing G.O. bond debt (\$256.3 million) to offset the Public Safety O&M costs and utilize "freed up" monies in the General Fund to fund the personnel and operational costs related to the new Public Safety facilities.

Councilmember Somers stated that in FY 2027/28, the City's existing bond debt would be retired. He inquired how the City would pay for ongoing Public Safety O&M costs after that time if Mesa voters approved the proposed bond package this November.

Mr. Raines responded that the City would levy a tax necessary to offset those expenses related to the operation of Public Safety until FY 2020/21, at which time the City would no longer have the authority under the current bond program.

City Manager Christopher Brady further explained that no Council can bind future Councils. He commented that when staff addresses the issues of budgeting and financing the City, they are considered from a long-term perspective. Mr. Brady stated that there is no restrictive obligation that staff can create other than to suggest that at some point prior to FY 2020/21, they begin to assess the General Fund revenue base, current economic trends, identify growth, and restrict expenditures early on in order to create the capacity in the budget to absorb \$13 million in recurring O&M costs into the future.

Mayor Smith commented that although the current Council cannot bind future Councils, in a sense, it is because of the financial model that is being created.

Mr. Raines stated that staff has calculated a debt service offset of \$0.0788 per thousand dollars assessed valuation for the Public Safety O&M costs over the 24-year life of the program.

Extensive discussion ensued relative to the fact that the estimated new G.O. bond debt service, combined with the debt service offset for public safety O&M, would result in an average secondary property tax rate of \$0.3642 that could be levied between FY 2009/10 and FY 2032/33; that staff would endeavor to structure the bond sales in such a manner to predict future assessed values so that the rates remain constant; and a comparison of local tax rates throughout the Valley (See Attachment 6.).

In response to a question by Councilmember Finter, City Clerk Linda Crocker clarified that if the Council preferred to delay the proposed bond election, per State Statute, any future bond election must be held in the month of November. She explained that if the City proceeded with

the November bond election and consolidated with the County, Mesa would incur costs in the range of \$140,000. Ms. Crocker added that if Mesa did a stand-alone election, the City's costs would be approximately \$300,000.

In response to a series of questions by Mayor Smith, City Attorney Debbie Spinner stated that if the Council determined that it was appropriate to modify the number of projects and/or the dollar amounts included in the bond package, it would be necessary to identify which items are added/deleted from the proposal. She noted, however, that there are specific statutory requirements regarding the ballot language that cannot be changed.

Mr. Raines informed the Council that the ballot questions would not list the specific projects, but provide more generic terminology (i.e., fire station, land or equipment). He said that a description of the individual projects would be included in supplemental material available to the voters.

Ms. Spinner further advised that the State Statute has been changed and provides two options with regard to the ballot language. She highlighted the alternatives as follows: 1.) "The issuance of these bonds will result in an annual levy of property taxes sufficient to pay the debt on the bonds;" or 2.) "The issuance of these bonds will result in an annual levy of property taxes sufficient to pay the debt on the bonds, unless the governing body provides for payment from other sources."

Mr. Raines explained that due to the length of the November 4, 2008 ballot, Mesa voters might only see tag lines on the ballot with regard to the two bond questions. He said that the full ballot language would be posted in the voting booths.

Ms. Crocker commented that in the past, Maricopa County Elections limited Mesa to tag lines of approximately 20 words. She noted, however, that she is aware of a State Statute that would allow tag lines of no more than 50 words and said that at this point in time, the County has indicated that they believe Mesa could have 50 word tag lines on the November ballot.

Transportation Director Dan Cleavenger provided an extensive overview of the Mesa Transportation Plan.

In response to a question by Councilmember Somers, Mr. Brady stated that because of the downturn in the economy and the size of the bond package, staff could revise the bond package into a shorter two-year program. He explained that this would allow the City to fund the most critical projects and also provide the Council additional time to review the remaining projects. Mr. Brady added that there could be a cost savings to the City if the bond election was held at the same time as the Council elections in 2010.

Councilmember Kavanaugh commented that last fall, he supported the bond package. He stated, however, that due to the subsequent turnaround in the economy, he would prefer that the Council and the community be given the opportunity to consider other options. Councilmember Kavanaugh added that he liked the concept of a two-year bond program.

Councilmember Richins concurred with Councilmember Kavanaugh's comments. He also said that the manner in which the City approaches Mesa voters regarding the levying of a secondary property tax must be done in a respectful manner.

Additional discussion ensued relative to the prioritization process with regard to capital improvement projects for streets.

Councilmember Finter requested that staff provide the Council “a worst case scenario” relative to postponing the bond election for one year. He asked that the analysis include election costs and the ramifications of not accelerating certain projects.

Councilmember Richins also requested that staff provide the Council historic traffic counts and safety information with regard to the proposed street intersection projects. He said that such data would assist the Council in prioritizing which intersection improvements/street widening projects are more critical.

In response to a question by Mayor Smith, Ms. Spinner clarified that the ballot language must be submitted to the County by July 24th.

Mayor Smith acknowledged that the world has changed in the last seven months and said that such changes have impacted not only the City, but also Mesa residents. He commented that it is important for the City to recognize and appreciate that fact. Mayor Smith requested that at the June 12th Study Session, staff bring back a bond package that is “more palatable” and suggested that a two-year bond package might be appropriate.

Mayor Smith thanked staff for the detailed presentation.

2. Hear reports on meetings and/or conferences attended.

There were no reports on meetings and/or conferences attended.

3. Scheduling of meetings and general information.

City Manager Christopher Brady stated that the schedule of meetings is as follows:

Thursday, June 12, 2008, 7:30 a.m. – Study Session

Thursday, June 19, 2008, 7:30 a.m. – Study Session

Monday, June 23, 2008, TBA – Study Session

Monday, June 23, 2008, 5:45 p.m. – Regular Council Meeting

Tuesday, July 1, 2008, TBA – Study Session

Tuesday, July 1, 2008, 5:45 p.m. – Regular Council Meeting

Tuesday, July 8, 2008, TBA – Study Session

Tuesday, July 8, 2008, 5:45 p.m. – Regular Council Meeting

Thursday, August 28, 2008 and Saturday, August 30, 2008, TBA – Council’s Strategic Planning Session

Mayor Smith commented that the previous Council recently deferred a decision with regard to the Mesa Gateway Strategic Development Plan as it relates to various land use alternatives and referred the item back to the Planning & Zoning (P&Z) Board for their input and feedback. He stated that in his opinion, the process was "rushed" and that the discussion should once again focus on "the basics" of the consultant's study, in addition to the land use options. Mayor Smith acknowledged that Phoenix-Mesa Gateway Airport must be protected and maximized to its highest use and potential. He added that Rich Adams, Chairman of P&Z, has agreed to postpone the Board's meeting when the land use alternatives were to have been discussed. Mayor Smith proposed that the Council and P&Z conduct a joint meeting, at which time staff and the consultants could provide a broader overview of the study.

Mr. Brady stated that staff would make arrangements for such a meeting.

4. Prescheduled public opinion appearances.

- a. Hear from Dennis Howe regarding Adult Softball Program.

Dennis Howe, a long-time participant in Mesa's Adult Softball Program, expressed concern regarding the deterioration of the program in recent years. He stated that in particular, the purpose of the umpires is to enforce the rules and control the games and noted that the quality of the program has declined in that regard.

5. Adjournment.

Without objection, the Study Session adjourned at 9:29 a.m.

SCOTT SMITH, MAYOR

ATTEST:

LINDA CROCKER, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 5th day of June 2008. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK